

**IN THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

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<b>IN RE:</b>	)	
	)	
<b>UNITED CITIES GAS COMPANY,</b>	)	
<b>a Division of ATMOS ENERGY</b>	)	<b>Docket No. 01-00704</b>
<b>CORPORATION INCENTIVE</b>	)	
<b>PLAN (IPA) AUDIT</b>	)	
	)	
<b>IN RE:</b>	)	
	)	
<b>UNITED CITIES GAS COMPANY,</b>	)	
<b>a Division of ATMOS ENERGY</b>	)	<b>Docket No. 02-00850</b>
<b>CORPORATION, PETITION TO</b>	)	
<b>AMEND THE PERFORMANCE</b>	)	
<b>BASED RATEMAKING</b>	)	
<b>MECHANISM RIDER</b>	)	

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**MOTION TO CONSOLIDATE AND  
FOR APPROVAL OF SETTLEMENT AGREEMENT**

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Atmos Energy Corporation (the "Company") and the Staff of the Tennessee Regulatory Authority, in its capacity as a party (the "Staff") file this motion requesting that the Tennessee Regulatory Authority (the "Authority") enter an order consolidating the above-referenced dockets and for the Authority to approve the Settlement Agreement between the Company and the Staff in both dockets.

On August 7, 2001, the Company filed its Annual Report of the Incentive Plan Account ("IPA") for the second year of the permanent Performance Based Ratemaking ("PBR") Plan, which encompassed the period from April 1, 2000 to March 31, 2001. The Staff with the Energy and Water Division of the Authority conducted the audit of the report. On March 28, 2002, Staff issued its preliminary audit findings, and the Company responded on April 5, 2002. The Staff's

audit report was modified to include the Company's responses and filed in Docket No. 01-00704 on April 10, 2002.

In its audit report, the Staff contended that the Company had over-recovered \$526,265 in savings from discounted transportation contracts and \$100,947 in savings from the Company's NORA contract. The Company disputed both of these findings. Shortly thereafter, the Authority granted the Consumer Advocate and Protection Division's (the "CAPD") petition to intervene and convened a contested case in Docket No. 01-00704 to determine whether the Company's objections to the two findings within the audit should be sustained.

In July 2002, the CAPD filed a motion for summary judgment as to the first disputed finding that the Company had over-recovered \$526,265 in savings from the discounted transportation contracts. That same month, the Staff filed a similar motion for summary judgment as to both the first finding regarding discounting transportation contracts, as well as the second finding regarding proper treatment of the NORA contract under the PBR Plan.

While the summary judgment motions in Docket No. 01-00704 were pending, the Company, on August 9, 2002, filed its petition in Docket No. 02-00850 to amend its PBR Plan tariff to provide a more detailed and specific method for calculation of savings from discounted transportation contracts. The Company's petition in Docket No. 02-00850 provided that it was filed without waiving the Company's objections, defenses and positions taken in the pending audit case in Docket No. 01-00704. The CAPD intervened in Docket No. 02-00850 and thereafter the Staff also intervened. Docket No. 02-00850 was placed on hold pending the resolution of the audit case in Docket No. 01-00704 since resolution of the audit case would materially impact Docket No. 02-00850.

Two complete PBR Plan years have ended during the pendency of Docket No. 01-00704. The 2001-2002 plan year ended on March 31, 2002, and on March 31, 2003, the 2002-2003 plan year concluded. On March 31, 2004, a third plan year will end. Due to the uncertainty as to the method of calculating the PBR Plan savings at issue in Docket Nos. 01-00704 and 02-00850, the Staff and the Company agreed to postpone filing of the Company's annual reports for plan years 2001-2002, 2002-2003 and 2003-2004 until the audit case is resolved. Clearly, Docket Nos. 01-00704 and 02-00850 are significantly related and consolidation of them will conserve resources and assist in bringing the matters to a resolution.

The complete terms and conditions of the Settlement Agreement are set forth in the document attached as Exhibit 1. In pertinent part, the Company has agreed to withdraw its objections to the Staff's audit of the 2000-2001 PBR plan year and to fully refund to customers the total amount it collected from customers, plus interest thereon, based on the contested recovery in Docket No. 01-00704. In turn, the Staff, in its capacity as a party, agrees with, supports and recommends the Transportation Index Factor ("TIF") tariff proposed by the Company in Docket No. 02-00850. The Staff and the Company agree that the TIF tariff amendments, with an effective date of April 1, 2001, will provide a more detailed and specific method for calculations of savings from discounted transportation contracts under the PBR Plan mechanism and that the TIF tariff is consistent with the intent and scope of the PBR Plan and is beneficial to consumers, as well as the Company. In summary, approval of the Settlement Agreement is necessary and proper for the public convenience and properly serves the public interest.

WHEREFORE, Staff and the Company request that the Authority enter an order consolidating Docket Nos. 01-00704 and 02-00850, and approve the Settlement Agreement.

The Staff and the Company request that the Authority consider this Motion to Consolidate and for Approval of Settlement Agreement at the March 22, 2004 conference.

Respectfully submitted,

ATMOS ENERGY CORPORATION

By: Joe A. Conner by  
Randal L. Gilliam with permission  
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STAFF OF THE TENNESSEE  
REGULATORY AUTHORITY:

By: Randal L. Gilliam  
Randal L. Gilliam  
Counsel for Staff  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been served by hand or via U.S. Mail, postage prepaid, this 8 day of March, 2004 upon the following:

Russell T. Perkins  
Timothy C. Phillips  
Shilina B. Chatterjee  
Consumer Advocate & Protection Division  
425 Fifth Avenue, 3rd Floor  
Nashville, TN 37243-0505

Randal L. Gilliam

## SETTLEMENT AGREEMENT

This Settlement Agreement (this "Agreement") is entered into this   7   day of March 2004 by and between Atmos Energy Corporation, f/k/a United Cities Gas Company ("Atmos" or "the Company") and the Staff of the Tennessee Regulatory Authority, in its capacity as a party, ("Staff") (collectively the "Parties").

### RECITALS

WHEREAS, a contested case was convened in Docket No. 01-00704, to resolve Staff's findings in its audit of Atmos' 2000-2001 PBR incentive plan year. Atmos contested Staff Finding #2 and Staff Finding #3 which, when combined, totaled an alleged over-recovery of \$627,212.30 (the "Contested Recovery"). Staff is a party to the contested case in Docket No. 01-00704. The Consumer Advocate and Protection Division of the Attorney General's Office ("CAPD") has also intervened as a party in Docket No. 01-00704, and

WHEREAS, in Docket No. 02-00850, Atmos has submitted a petition for an amendment to its Performance Based Ratemaking Mechanism Rider ("PBRM") to include a transportation index factor ("the TIF tariff"). The CAPD intervened as a party in Docket No. 02-00850. Staff has also intervened as a party to Docket No. 02-00850.

WHEREAS, after an extensive negotiation process, Staff and Atmos negotiated a settlement in both Docket No. 01-00704 and Docket No. 02-00850 which is consistent with the intent and scope of the PBRM and which is beneficial to and serves the best interests of consumers and the Company.

WHEREAS, Staff and Atmos also acknowledge that the CAPD was fully involved during the course of the negotiation process, but up to this point has elected to not participate as a party to the settlement reached between Staff and Atmos.

WHEREAS, Staff and Atmos agree to cooperate and actively participate in filing the necessary pleadings and/or testimony to effectuate the terms and conditions of the Agreement and the approval and implementation of the TIF tariff in Docket No. 02-00850 and the resolution of Docket No. 01-00704.

NOW, THEREFORE, in consideration of the mutual promises contained in this Agreement, the receipt and legal sufficiency of which are hereby irrevocably acknowledged, Staff and Atmos agree as follows:

(1) Atmos and Staff agree to jointly petition for a consolidation of Docket Nos 01-00704 and 02-00850.

(2) Atmos agrees to withdraw its objection to Staff's audit findings as set forth in Docket No. 01-00704. The TRA will select and engage an outside consultant to assist with future audits of filings for PBR incentive plan years submitted under the PBRM and the TIF tariff. For administrative purposes the TRA shall be the client of the outside consultant, however, Atmos will remit payment for the invoiced fees of the outside consultant directly to the outside

consultant Atmos will thereafter be permitted to recover these invoiced fees through the PGA mechanism

(3) Staff, in its capacity as a party to Docket No. 02-00850, agrees with, supports, and recommends the TIF tariff proposed by Atmos in Docket No. 02-00850. Staff and Atmos agree that the TIF tariff amendments will provide a more detailed and specific method for calculation of savings from discounted transportation under the PBRM and are consistent with the intent and scope of the PBR and are beneficial to consumers as well as the Company.

(4) Staff and Atmos agree that the effective date of the TIF tariff Atmos proposed in Docket No. 02-00850 will be April 1, 2001. Atmos will file its annual report for the 2002-2003 incentive plan year within 45 days of final approval of this settlement.

(5) Staff and Atmos shall cooperate and actively participate in filing the necessary pleadings and/or testimony to effectuate the terms and conditions of this Agreement and the approval and implementation of the TIF tariff in Docket No. 02-00850, including any appeal of an order therefrom.

(6) Reconciliation of the Contested Recovery in Docket No. 01-00704.

Atmos agrees to fully refund to customers the total amount it collected from customers, plus interest thereon, based on the Contested Recovery in Docket No. 01-00704. The principal amount and interest subject to refund and the rate decrement factor (the "Refund Factor") are reflected on Exhibit A attached hereto and incorporated by reference. Upon final approval of this Agreement by the TRA, Atmos will immediately make a PGA filing to implement the Refund Factor in order to begin the refund process.

The Company will file its annual report for the 2001-2002 and 2002-2003 plan years within 45 days of final approval of this settlement.

(7) Staff and Atmos acknowledge and agree that the terms of this Agreement are subject to and conditioned upon the final approval of the Authority.

(8) Staff, in its capacity as a party to Docket No. 02-00850, and Atmos agree that the adoption of the TIF tariff as provided in this Agreement does not constitute retroactive ratemaking.


(9) Construction. This Agreement shall not be construed against any of the Parties on the ground that any person may have drafted this Agreement.

(10) Entire Agreement. This Agreement constitutes the entire understanding of the Parties and supersedes all prior oral or written agreements on the subject matter of this Agreement. This Agreement cannot be modified except by a writing signed by all of the Parties.

(11) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of Tennessee.

IN WITNESS WHEREOF, the Parties, being duly authorized so to do, have executed this Agreement on the date first above written.

STAFF OF THE  
TENNESSEE REGULATORY AUTHORITY

By: 

Title: CHIEF - ENERGY & WATER DIVISION

ATMOS ENERGY CORPORATION

By: 

Title: Vice President - Rate & Regulatory

CALCULATION OF PBR RATE DECREMENT FOR SETTLEMENT AGREEMENT  
FOR THE PERIOD APRIL 1, 2004 TO MARCH 31, 2005

EXHIBIT A

AMOUNT COLLECTED FROM CUSTOMERS of the contested recovery of \$627,212	(\$578,379 18)
	\$0 00
INTEREST ON MONTHLY BALANCES THROUGH December 03 (this will be updated depending on the date of the filing)	(\$50,925 99)
	-----
TOTAL REFUNDED TO CUSTOMER	(\$629,305 17)
 SALES FOR ALL TENNESSEE TOWNS ** (APRIL 2002 - MARCH 2003)	 164,585,430 ccf
 RATE DECREMENT ("REFUND FACTOR") EFFECTIVE APRIL 1, 2004 (Assuming TRA approval by this date)	 \$ (0 00382) /ccf
 Impact on Residential Customer using 1000 Ccf annually	 \$ (3 82)



ATMOS ENERGY CORPORATION  
**CALCULATION OF PBR INTEREST FOR SETTLEMENT AGREEMENT**  
 TRA DOCKET NUMBER 01-00704  
 ALL TENNESSEE TOWNS

	BEGINNING BALANCE	GAS PROCUREMENT SAVINGS OR COSTS	Amount Collected	ENDING BALANCE	INTEREST
OCTOBER 2001			\$23,971 08	(\$23,971 08)	(\$67 92)
NOVEMBER	(\$24,039 00)		\$51,499 85	(\$75,538 85)	(\$282 14)
DECEMBER	(\$75,820 99)		\$58,401 24	(\$134,222 23)	(\$595 12)
JANUARY, 2002	(\$134,817 35)		\$103,970 59	(\$238,787 94)	(\$877 97)
FEBRUARY	(\$239,665 91)		\$99,785 13	(\$339,451 04)	(\$1,360 92)
MARCH	(\$340,811 96)		\$75,935 86	(\$416,747 82)	(\$1,780 27)
APRIL	(\$418,528 09)		\$52,077 96	(\$470,606 05)	(\$1,770 86)
MAY	(\$472,376 91)		\$29,493 62	(\$501,870 53)	(\$1,940 38)
JUNE	(\$503,810 91)		\$24,006 48	(\$527,817 39)	(\$2,054 66)
JULY, 2002	(\$529,872 05)		\$19,494 50	(\$549,366 55)	(\$2,135 99)
AUGUST	(\$551,502 54)		\$19,863 52	(\$571,366 06)	(\$2,222 34)
SEPTEMBER	(\$573,588 40)		\$19,778 09	(\$593,366 49)	(\$2,309 60)
OCTOBER	(\$595,676 09)		\$101 26	(\$595,777 35)	(\$2,358 08)
NOVEMBER	(\$598,135 44)			(\$598,135 44)	(\$2,367 62)
DECEMBER	(\$600,503 05)			(\$600,503 05)	(\$2,376 99)
JANUARY, 2003	(\$602,880 05)			(\$602,880 05)	(\$2,321 09)
FEBRUARY	(\$605,201 13)			(\$605,201 13)	(\$2,330 02)
MARCH	(\$607,531 16)			(\$607,531 16)	(\$2,338 99)
APRIL	(\$609,870 15)			(\$609,870 15)	(\$2,159 96)
MAY	(\$612,030 11)			(\$612,030 11)	(\$2,167 61)
JUNE	(\$614,197 72)			(\$614,197 72)	(\$2,175 28)
JULY, 2003	(\$616,373 00)			(\$616,373 00)	(\$2,182 99)
AUGUST	(\$618,555 99)			(\$618,555 99)	(\$2,190 72)
SEPTEMBER	(\$620,746 71)			(\$620,746 71)	(\$2,198 48)
OCTOBER	(\$622,945 19)			(\$622,945 19)	(\$2,112 82)
NOVEMBER	(\$625,058 01)			(\$625,058 01)	(\$2,119 99)
DECEMBER	(\$627,178 00)			(\$627,178 00)	(\$2,127 18)
JANUARY, 2004	(\$629,305 17)			(\$629,305 17)	(\$2,134 39)

ATMOS ENERGY CORPORATION  
 CALCULATIONS OF PBR COLLECTIONS FOR SETTLEMENT AGREEMENT  
 DOCKET NUMBER 01-00704  
 OCTOBER 1, 2001 TO OCTOBER 1, 2002

MONTH	CCF SALES	AMOUNT COLLECTED @ 0 004	BALANCE COLLECTED
Oct-01	5,992,769	\$23,971 08	(\$23,971 08)
Nov-01	12,874,963	\$51,499.85	(\$75,470.93)
Dec-01	14,600,311	\$58,401.24	(\$133,872 17)
Jan-02	25,992,648	\$103,970 59	(\$237,842 76)
Feb-02	24,946,283	\$99,785.13	(\$337,627 89)
Mar-02	18,983,964	\$75,935.86	(\$413,563 75)
Apr-02	13,019,489	\$52,077.96	(\$465,641.71)
May-02	7,373,404	\$29,493.62	(\$495,135 33)
June-02	6,001,620	\$24,006.48	(\$519,141.81)
July-02	4,873,624	\$19,494.50	(\$538,636 31)
Aug-02	4,965,880	\$19,863.52	(\$558,499.83)
Sept-02	4,944,523	\$19,778.09	(\$578,277 92)
October 02 adj.	25,314	\$101.26	(\$578,379.18)
Previously Filed			\$0 00
Residual Balance			(\$578,379.18)